

OFFICIAL FILE

STATE OF ILLINOIS C.C. DOCKET NO. 00-0443
North Shore Exhibit No. B
ILLINOIS COMMERCE COMMISSION Fiorella
Witness

Illinois Commerce Commission,
On Its Own Motion

Date 6/13/01 Reporter KB

00-0443

Reconciliation of revenues collected under
North Shore Gas Company Rider 11 with
prudent costs associated with coal tar
cleanup expenditures.

REBUTTAL TESTIMONY OF SALVATORE FIORELLA

Q. Please state your name and business address.

A. My name is Salvatore Fiorella. My business address is 130 East
Randolph Drive, Chicago, IL 60601.

Q. By whom are you employed and in what capacity?

A. I am employed by The Peoples Gas Light and Coke Company
("Peoples"). My present position is Manager, State Regulatory Affairs
Department.

Q. Please briefly outline your educational background and business
experience.

A. In 1975, I received a Bachelor of Arts degree, majoring in Accounting,
from Loras College in Dubuque, Iowa. In 1985, I received a Masters of
Business Administration, with a concentration in Finance, from DePaul
University.

After attending Loras College, I began my employment with Peoples. I
held various positions in Peoples' Property Accounting Department from 1975
through 1986. In 1982, I was promoted to Supervisor in the Property

Accounting Department. In 1987, I transferred to the Auditing Department retaining the title of Supervisor. Approximately one year later, I transferred to the State Regulatory Affairs Department, again retaining the title of Supervisor. Four years later, in 1992, I was promoted to the position of Superintendent, Property Accounting. In November 1994, I was transferred to State Regulatory Affairs retaining the title of Superintendent. In 1995, my title was changed from Superintendent to Manager, State Regulatory Affairs.

Q. What are your responsibilities in your present position?

A. My responsibilities include managing and directing the activities of the State Regulatory Affairs Department. A large part of these activities involves the preparation and review of petitions, testimony and exhibits pertaining to matters brought before the Illinois Commerce Commission ("Commission") and preparation and filing of reports required by Commission orders. I perform all of the above duties for both Peoples and North Shore Gas Company ("North Shore" or "Company").

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony in this proceeding is to sponsor exhibits responding to a request of Ms. Mary H. Everson in her direct testimony in this proceeding on behalf of the Commission's Staff and questions posed by Commissioner Ruth K. Kretschmer that were served on the Company by notice dated May 9, 2001.

Q. I show you now a copy of a document that has been marked for identification as North Shore Exhibit 2. Please identify this document.

42 A. North Shore's Exhibit 2 is a true and correct copy of the Company's
43 responses to Commission Staff Data Request Nos. SDR-1 through 22 in this
44 proceeding. The Company is offering this exhibit for the record at the request
45 of the Commission Staff.

46 Q. I show you now a copy of a document that has been marked for
47 identification as North Shore Exhibit 3. Please identify this document.

48 A. North Shore's Exhibit 3 is a true and correct copy of the Company's non-
49 proprietary responses to Commissioner Ruth K. Kretschmer's data requests
50 served on the Company by the Commission's Chief Clerk on May 9, 2001.

51 Q. I show you now a copy of a document that has been marked for
52 identification as North Shore Exhibit 3A. Please identify this document.

53 A. North Shore's Exhibit 3A is a true and correct copy of the Company's
54 proprietary attachment to Commissioner Ruth K. Kretschmer's first data request
55 that North Shore has marked as data response RKK 1.001. It is being provided
56 in compliance with Section 280.430 of the Commission's Rules.

57 Q. Does this conclude your rebuttal testimony?

58 A. Yes, it does.

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission,)

On Its Own Motion)

00-0443

Reconciliation of revenues collected under)

North Shore Gas Company Rider 11 with)

prudent costs associated with coal tar)

cleanup expenditures.)

NOTICE OF FILING

To: Service List

PLEASE TAKE NOTICE that on this 29th day of May 2001, I have filed with the Chief Clerk of the Illinois Commerce Commission, the Rebuttal Testimony of Salvatore Fiorella, a copy of which is hereby served upon you.

CERTIFICATE OF SERVICE

I, Timothy P. Walsh, hereby certify that I have served the Rebuttal Testimony of Salvatore Fiorella by e-mail on May 29, 2001, upon each of the parties of record in Ill.C.C. Docket No. 00-0443. Dated at Chicago, Illinois this 29th day of May 2001.

By: _____

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**III. C. C. Docket 00-0443
North Shore Exhibit 2**

**North Shore Gas Company Responses To
Commission Staff Data Requests Numbers SDR-1 through SDR-22**

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.001

RESPONSIBLE WITNESS: MATUSZAK

1. REQUEST:

Describe with specificity how the actions undertaken by the Company comply with each of the four prudence standards contained in the Commission's Order in Docket Nos. 91-0080 through 91-0095 (Consolidated).

RESPONSE:

The Commission's Order in Docket Nos. 91-0080 through 91-0095 (Consolidated) finds that prudence of coal tar expenditures should be determined in accordance with the following four standards:

- (1) reasonable and appropriate business standards;
- (2) the requirements of relevant state and/or federal authorities;
- (3) minimization of costs to ratepayers, consistent with safety, reliability and quality assurance; and
- (4) based on facts and knowledge the Company knew or reasonably should have known at the time the expenditures were made.
(Order in Consolidated Dockets 91-0080 through 91-0095, dated September 30, 1992, p. 79-81.)

The Company's compliance with these four standards is demonstrated in the direct testimony of Mr. Steven J. Matuszak, the Company's witness in this proceeding. Mr. Matuszak states that the Company uses the above-quoted standards in determining whether or not to make expenditures in complying with environmental laws and regulations. Matuszak test., p. 3.

The two main standards are the second and third standards. The fourth standard is actually more of a standard to be used by the Commission in determining the prudence of a utility's expenditures for environmental activities. That is, the Commission is to determine prudence based on facts and knowledge available to the utility at the time it made its decision, not based on a 20/20 hindsight review. The first standard -- a reasonable and appropriate business standard -- really follows from the second and third standards. That is, a utility which meets the requirements of state and federal law, while minimizing costs to ratepayers, without jeopardizing safety, reliability and quality assurance, is obviously following a reasonable and appropriate business standard.

With respect to the second standard, meeting the requirements of

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RESPONSIBLE WITNESS: MATUSZAK

federal and state law, the Company complies fully with this standard as demonstrated in Mr. Matuszak's direct testimony. Mr. Matuszak testifies that the Company incurs costs in complying with recently enacted laws and regulations. Matuszak test., pp. 4-5. His testimony describes in detail how the Company interacts with the two agencies responsible for enforcing federal and state environmental laws -- the United States Environmental Protection Agency ("USEPA") and the Illinois Environmental Protection Agency ("IEPA") (see Matuszak test., pp. 5-6). The Company's compliance with federal and state laws is also demonstrated in Mr. Matuszak's description of the actual expenditures made during fiscal year 1999 at specific manufactured gas plant sites and for specific activities (see Matuszak test., pp. 8-12). The Company's compliance with federal and state law is also shown in its Exhibit 1, the Company's report to the Commission filed pursuant to Rider 11, Adjustment for Incremental Costs of Environmental Activities, of its rate schedule. Furthermore, compliance with federal and state law is also demonstrated by the Company's responses to Staff Data Request Nos. SDR 1.002, 1.006, 1.015, 1.017, 1.018 and 1.021.

With respect to the third standard, minimization of costs, Mr. Matuszak testifies that the Company's policy is to control environmental compliance costs to the fullest possible extent. Accordingly, the Company will only make expenditures when it is determined prudent to do so. Matuszak test, p. 3. Mr. Matuszak further testifies that the most effective way for the Company to control costs is to be actively involved in the determinations that are made regarding the timing, choice, and scope of environmental activities. Matuszak test., p. 3. In addition, the Company's policy is to make all reasonable efforts necessary to vigorously pursue recovery of the incremental costs incurred as a result of environmental activities from potentially responsible parties ("PRPs") and insurance carriers. Matuszak test., p. 6.

The Company's policy to minimize costs is demonstrated in Mr. Matuszak's description of the expenditures for environmental activities that the Company has made during fiscal year 1999. Matuszak test., pp. 8-12. In particular, Mr. Matuszak describes the efforts the Company has made to pursue cost recovery from its insurance carriers. Matuszak test., pp. 10-11.

The Company's compliance with the Commission's third standard is also demonstrated in the Company's Exhibit 1 and the Company's responses to Staff Data Request Nos. MHE 1.004 and 1.005 and SDR 1.002 through 1.022.

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RESPONSE TO DATA REQUEST: SDR 1.002

RESPONSIBLE WITNESS: MATUSZAK

2. REQUEST:

This request pertains to the level of environmental cleanup required at each MGP site.

- a. For each MGP site, describe the level of environmental cleanup required.
- b. List the steps that must be taken to obtain the level of environmental cleanup required.
- c. Explain and evaluate any alternative levels of environmental cleanup that may be applicable for each site.

RESPONSE:

a. It is the responsibility of the United States Environmental Protection Agency, Region V ("USEPA") to determine the level of environmental remediation that will be required for each of the Company's former MGP sites that are under its regulatory supervision. The Illinois Environmental Protection Agency ("IEPA") is responsible for making the determination as to the level of environmental remediation that will be required for each of the Company's former MGP sites that are under its regulatory supervision. Either agency can assert its regulatory authority over any particular site that is located within its jurisdiction. Absent unusual circumstances, the USEPA will generally refrain from asserting jurisdiction over sites that are under the regulatory supervision of the IEPA. When the USEPA has asserted its regulatory authority over a site, it will consult the IEPA which will participate in the oversight process.

Each regulatory agency is vested with extensive statutory discretion in determining both the level of environmental remediation that it will require at a given site, and how that level of remediation will be accomplished. Because of the wide discretion that is vested in the environmental regulatory agencies, it is necessary for the Company to actively participate in every phase of the site investigative and remedy selection processes. This participation is necessary so as to allow the Company to negotiate effectively with the agency regarding the various stages of the remediation process. This, in turn, gives the Company the opportunity to minimize, to the fullest extent possible, the total cost of the environmental remediation of a particular site in a manner that is consistent with legal and regulatory requirements.

In making a determination as to the particular level of environmental remediation that will be required at any given site, and how that level of environmental remediation will be accomplished, each agency will rely upon the information that is gathered by the Company and its

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RESPONSE TO DATA REQUEST: SDR 1.002

RESPONSIBLE WITNESS: MATUSZAK

consultants during the various investigative phases that are performed. The activities that are conducted during the investigative phases are described in the Company's response to SDR-002(b). The activities that are performed during each of the investigative phases are highly complex, and require that the Company engage vendors with highly specialized experience and expertise.

After all of the investigative phases have been completed, the regulatory agency will begin to make a determination as to the level of environmental remediation that will be required at a given site, and how that level of remediation will be accomplished. In making these determinations, the agency will consider the information obtained during the investigative phases, the recommendations of the Company, the Company's consultants, the agency's consultants, and other factors that are described in the Company's response to SDR-002(c).

The USEPA and the IEPA are currently in the process of making determinations as to the level of environmental remediation that will be required at the Company's former Waukegan Coke Plant site. Preliminary assessments for two of the Company's other sites-- North Plant and South Plant, have each been submitted to the IEPA for its review.

Another site, the Waukegan Tar Pit, had previously been under the regulatory supervision of the USEPA. During fiscal year 1992, the Company began the process of removing and disposing of all visible free tar at the site. These activities were completed. Thereafter, by letter dated October 20, 1994, the Company received written acknowledgment from the USEPA that it had satisfactorily performed all of the work that it was required to perform under the USEPA's unilateral Administrative Order issued September 5, 1991 relative to that site.

b. Prior to making a determination as to the level of environmental cleanup that will be required for a particular site, either the USEPA or IEPA will require that the Company perform several different types of environmental activities. The following environmental activities are generally undertaken to obtain the level of environmental cleanup that is required for any former MGP site.

First, there is screening and site characterization based on sampling analyses. Second, there is a risk assessment taking into account human health and ecological considerations and considering present and future uses for the site. Third, there is a feasibility study to evaluate the effectiveness of various remedies. Fourth, for sites under the supervision of the USEPA, there is a process for public comment on proposed remedies. While this is not a statutory requirement for sites supervised by the IEPA, the Company would likely undertake a public comment process. Fifth, there is remedy selection. Sixth, there is

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RESPONSE TO DATA REQUEST: SDR 1.002

RESPONSIBLE WITNESS: MATUSZAK

remedial design. Seventh, there is remedial implementation. Finally, there is post-remedial monitoring.

In order to assist it in these activities, the Company engages an environmental engineering consultant and environmental counsel, each possessing a highly specialized level of relevant experience and expertise. The Company also utilizes a community relations specialist, which it consults with as required for any of its projects. The selection of qualified, experienced and reputable environmental engineering consultants, environmental counsel, community relations specialists and other reliable vendors is crucial in controlling the total cost of a remediation project in a manner that is consistent with the requirements imposed by the regulatory agency. The selection of experienced and reputable vendors enables the Company to negotiate more effectively with the agency, thus giving the Company the opportunity to minimize to the fullest extent possible the total cost of a remediation project in a manner that is consistent with legal and regulatory requirements.

In selecting these vendors, personnel from the Company's affiliate, The Peoples Gas Light and Coke Company ("Peoples"), who provide environmental and legal services to North Shore pursuant to the Intercompany Services Agreement approved by the Commission in Docket 55071, consider many factors. Such factors include: the vendor's prior MGP experience; the vendor's experience at sites within the USEPA's Region V; the vendor's reputation in the industry; the Company's past experience with the vendor; its general capabilities; its general approach to environmental investigations; billing methods and projected implementation costs; and the professional qualifications of those individuals who would perform work on the project.

c. The level of environmental remediation that may be required for any particular former MGP site is determined by the USEPA or the IEPA based on the regulatory requirements related to the media affected by the contamination (e.g., soil or groundwater), and human health and ecological risk factors.

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RESPONSE TO DATA REQUEST: SDR 1.003

RESPONSIBLE WITNESS: MATUSZAK

3. REQUEST:

Has the Company ever received a site remediation letter from the Illinois Environmental Protection Agency indicating that no further remediation is required at a specific MGP site? If yes, provide a copy of each site remediation letter received.

RESPONSE:

No.

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RESPONSE TO DATA REQUEST: SDR 1.004

RESPONSIBLE WITNESS: MATUSZAK

4. REQUEST:

Describe how the Company monitors the actual on-site investigation and remediation activities.

RESPONSE:

The Company monitors the actual on-site investigation and remediation activities by the use of Peoples' employees, and with one or more consultants engaged for this purpose. While the Company has had limited experience to date, the methods employed to monitor on-site activities will depend upon the type of activity that is being conducted.

Prior to the commencement of the on-site investigation phase, the Company engages one or more environmental engineering consultants to assist it. During the on-site investigation phase, Peoples' personnel will generally oversee the investigative activities that are conducted at the site by the consultant. The consultant, in turn, oversees the activities that are conducted by the subcontractors. Peoples' personnel also review the contents of the test results from analytical laboratories, drilling and well logs, hazardous waste shipment manifests, and other reports and documents that are submitted by the Company's environmental engineering consultant relative to the on-site activities that are conducted by the consultant and its subcontractors.

Prior to the commencement of the on-site remediation phase, the Company engages an environmental engineering consultant. This consultant may or may not be the same environmental engineering consultant that the Company engages to perform work during the on-site investigation phase. Thereafter, the Company will solicit proposals for the remediation project from several knowledgeable and experienced remediation contractors. These proposals are reviewed, and with the assistance of the Company's environmental engineering consultant, the appropriate contractor for the project is selected to perform remedial work at the site.

During the remediation phase, Peoples' personnel generally oversee all of the on-site remediation activities. The Company's environmental engineering consultant generally oversees the activities of the remediation contractor. The remediation contractor, in turn, monitors the activities of the subcontractors who perform work during the remediation phase. Peoples' personnel, the Company's environmental engineering consultant and the remediation contractor also interact with agency personnel assigned to oversee on-site remediation activities.

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DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.005

RESPONSIBLE WITNESS: MATUSZAK

5. REQUEST:

This request pertains to the Company's forecasting of MGP environmental cleanup costs for the reconciliation period.

- a. Explain the forecasting methods used by the Company to determine MGP environmental cleanup costs for the reconciliation period.
- b. Describe how the forecasted cost amounts were determined.
- c. Include explanations for each instance where the actual costs, by site or account code, deviated from the forecast costs by 10% or more.
- d. Explain how these cost forecasts were used by the Company for the reconciliation period.

RESPONSE:

a.-d. Unlike some other gas utilities, the Company's "MGP environmental cleanup costs for the reconciliation period" recovered from customers through Rider 11 are not determined based on forecasts, but on actual incurred incremental costs for environmental activities.

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RESPONSE TO DATA REQUEST: SDR 1.006

RESPONSIBLE WITNESS: MATUSZAK

6. REQUEST:

Provide a copy of all written procedures for MGP environmental cleanup purchasing and contracting that were in effect during the reconciliation period or that were in effect when past MGP environmental cleanup purchases and contracts were made that extended into the reconciliation period.

RESPONSE:

The Company's written procedures for the procurement of all goods and services, including the goods and services that are necessary to conduct MGP related environmental activities, that were in effect during the reconciliation period, are attached hereto. General Order No. 10, issued October 1, 1996, is entitled "Competitive Bid Policy", and states the Company's general policies regarding the acquisition of goods and services. The Company's General Order No. 12, issued August 13, 1998, is entitled "Approval of Disbursement Documents". The Company's Routine 101, issued by Peoples' Purchasing and Stores Department, represents a general overview of the process that is involved in the purchase and payment for materials and services.

General Order No. 10 states the Company's general policy of utilizing competitive bidding for the procurement of goods and services. Where appropriate, the Company utilizes the competitive bidding procedures described in General Order No. 10 to engage vendors of MGP related goods and services. General Order No. 10 also recognizes that there are circumstances where departures from competitive bidding are appropriate. General Order 10 recognizes the fact that services of a highly specialized, professional, or highly technical nature may be required by the Company, and that the utilization of the formal competitive bidding process is not always practical and appropriate for the procurement of such goods and services.

The circumstances which call for departure from the competitive bidding process are especially relevant when the procurement of MGP environmental cleanup related goods and services is concerned. Because the problems associated with MGP environmental cleanup projects are complex, and because of the magnitude of the Company's potential exposure, it is necessary that the Company engage highly specialized and experienced environmental engineering consultants, law firms, insurance archaeologists, and other reliable vendors of goods and services. The uniqueness of the problems associated with MGP environmental cleanup projects, as well as the highly specialized nature of the goods and services that are required to successfully complete these projects, sometimes render competitive bidding

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RESPONSIBLE WITNESS: MATUSZAK

inappropriate.

There are many uncertainties that are associated with MGP remediation projects. The nature, scope and magnitude of a remediation project are rarely known prior to the commencement of the investigation of the site. As a result of these uncertainties, the Company's potential needs for a given project can usually only be expressed in very broad terms. As such, it is virtually impossible for the Company to draft detailed requests for proposals that accurately specify all of the goods and services that it will require to complete a remediation project. Because the Company can only describe an upcoming remediation project in very broad terms, it is very difficult for a vendor to submit a detailed, formal bid in response to the Company's request for proposal. Consequently, formal competitive bids are not always helpful to the Company in the selection of many of the vendors of the goods and services that are required for MGP remediation projects.

In addition, the qualifications of the vendors that are sought by the Company for its MGP remediation projects, as well as the quality of the specialized and technical services that they provide, are not easily quantifiable. These services include the provision of sound and reliable advice and judgment, upon which the Company relies heavily. The ability of vendors to provide these valued services cannot always be determined by the Company through a competitive bidding process.

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RESPONSE TO DATA REQUEST: SDR 1.007

RESPONSIBLE WITNESS: MATUSZAK

7. REQUEST:

Provide the date when the MGP environmental cleanup purchasing and contracting procedures were most recently changed, identify each procedure that was changed, and explain why each change was made.

RESPONSE:

General Orders No. 10 and 12, and Routine 101 were in effect during the current reconciliation period. Copies of versions of each General Order in effect during the reconciliation period, as well as Routine 101, are attached to the Company's response to SDR 1.006. The version of General Order No. 10 that was in effect during the reconciliation period became effective on October 1, 1996 and the previous version had been in effect since June 25, 1990. The version of General Order No. 12 in effect during the reconciliation period became effective August 13, 1998 and the two most previous versions were effective March 23, 1998 and October 1, 1996. Revisions were made to improve the Company's purchasing practices.

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RESPONSE TO DATA REQUEST: SDR 1.008

RESPONSIBLE WITNESS: MATUSZAK

8. REQUEST:

This request pertains to the general management evaluations, assessments, and/or reviews of the MGP environmental cleanup purchasing and contracting procedures.

- a. Provide the date of the three most recent general management evaluations, assessments, and/or reviews of MGP environmental cleanup purchasing and contracting procedures.
- b. Provide a copy of all reports and/or summaries of these general management evaluations, assessments, and/or reviews.
- c. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of the these general management evaluations, assessments, and/or reviews.

RESPONSE:

a. The version of the Company's General Order No. 10 that was in effect during the reconciliation period became effective on October 1, 1996. The version of General Order No. 12 in effect during the period became effective August 13, 1998. The preceding versions of General Order 10, issued June 25, 1990, and General Order No. 12, issued March 23, 1998 and October 1, 1996, are attached to this response.

In fiscal 1994 and 1995, the Company conducted an internal audit relative to its acquisition of legal services, including those legal services which related to MGP environmental cleanup. This audit was conducted by the Companies' Auditing Department.

The Company also periodically reviews its existing arrangements with vendors, and corresponds with and meets with these vendors to discuss cost reduction issues. For example, in 1994, the Company, along with a potentially responsible party, engaged in continuing discussions with the Company's environmental engineering consultants relative to cost reduction issues at the former Waukegan Coke Plant. As a result of these discussions, the Company extracted several important cost concessions from the consultant. Among these concessions were the passing through to the Company of a 20% laboratory volume discount and no increase in billing rates for overtime work. A copy of the letter, dated December 23, 1994, (from Barr Engineering) which memorializes the cost concessions made by the vendor is attached hereto.

b. The results of the revisions of the Company's General Orders 10 and 12 are embodied in the revised versions themselves. The report relating to the Company's audit of its acquisition of legal services dated November 29, 1994 is attached hereto. A letter detailing vendor

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RESPONSE TO DATA REQUEST: SDR 1.008

RESPONSIBLE WITNESS: MATUSZAK

cost concessions resulting from the periodic review process described in the Company's response to SDR 1.008(a) is attached hereto.

c. Please refer to the Company's response to SDR 1.008(a).

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RESPONSE TO DATA REQUEST: SDR 1.009

RESPONSIBLE WITNESS: MATUSZAK

9. REQUEST:

Explain how purchasing and contracting decisions for MGP environmental cleanup costs were included in the corporate planning and budgeting process during the reconciliation period.

RESPONSE:

CORPORATE PLAN

The development and implementation of plans for the investigation and remediation of former manufactured gas production and storage sites, as required by environmental regulations, is considered normal, ongoing activity and the Corporate Business Plan excludes goals that reflect normal Company operations and activities. Therefore, it was decided that, plans regarding manufactured gas sites would not be included in the Corporate Business Plan.

BUDGET

After identifying the activities that the Company determined would be necessary to conduct for fiscal year 1999, a budget for completion of these activities was prepared using the Company's budgeting process. A copy of the materials the Company used in preparing its operation and maintenance budget for fiscal year 1999 is attached hereto. Budgeted environmental cleanup costs were prepared by Peoples' Environmental Affairs Department and Office of General Counsel, after consultation with the Company's expert environmental consultants and outside counsel, taking into account past experience and expected environmental activities for fiscal year 1999.

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RESPONSE TO DATA REQUEST: SDR 1.010

RESPONSIBLE WITNESS: MATUSZAK

10. REQUEST:

This request pertains to the Company's procedures for MGP environmental cleanup purchasing and contracting decisions.

- a. Identify the management level at which purchasing and contracting decisions for MGP environmental cleanup costs were made during the reconciliation period.
- b. If different procedures were applied at progressively higher cost amounts, describe in detail the procedures for each of the cost amounts.

RESPONSE:

- a. The Company's procedures for MGP environmental cleanup purchasing and contracting decisions are provided for in the Company's General Order Nos. 10 and 12, copies of which are attached to the Company's response to SDR 1.006.

The decisions made by the Company relative to the engagement of the environmental engineering consultants and other vendors who performed technical environmental services for the Company during the reconciliation period, as well as any other related decisions which involved anticipated expenditures in excess of \$50,000.00, were made by the Vice President of Peoples' Gas Operations Division, after consideration of the recommendations that were made by personnel from Peoples' Environmental Affairs Department, personnel from Peoples' Office of General Counsel, and when necessary, the recommendations of one or more consultants. Decisions that were made relative to the procurement of goods and services involving expenditures up to \$50,000.00 were made by the Director of the Environmental Affairs Department.

The decisions made by the Company relative to the engagement of law firms and litigation consultants as well as any other decisions involving non-engineering MGP related environmental goods and services expenditures anticipated to be in excess of \$50,000.00 were made by Peoples' Senior Vice President and General Counsel, after considering the recommendations from personnel from Peoples' Office of General Counsel and Peoples' Environmental Affairs Department, and on some occasions from the Company's environmental counsel or insurance counsel. Decisions that were made relative to the procurement of non-engineering MGP related environmental goods and services involving expenditures up to \$50,000.00 were made by the Senior Vice President and General Counsel or Assistant General Counsel.

- b. See the Company's response to SDR 1.010(a).

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RESPONSE TO DATA REQUEST: SDR 1.011

RESPONSIBLE WITNESS: MATUSZAK

11. REQUEST:

This request pertains to the Company's notification to potential suppliers of goods and services of the Company's intent to purchase or contract goods and services for the environmental cleanup of MGP sites.

- a. Identify all procedures used by the Company to ensure that every reasonable effort was made to notify all available suppliers of the goods and services required for the environmental cleanup of MGP sites before new purchases were made, or before new contracts were awarded to a supplier during the reconciliation period.
- b. Describe all related actions taken by the Company before any new purchases were made or before any new contracts were awarded during the reconciliation period.
- c. Describe the instances when only one supplier was notified, and explain how costs were thus minimized.
- d. Identify all instances when the lowest bid for goods and services required for the environmental cleanup of MGP sites was rejected, and explain the reasons for the rejection.

RESPONSE:

- a. The Company's General Order No. 10 describes the Company's procedures regarding the notification and solicitation of vendors for the acquisition of goods and services that are sought for the environmental cleanup of its former MGP sites. A copy of the Company's General Order No. 10 is attached to the Company's response to SDR 1.006.

The Company identifies prospective vendors of MGP related goods and services based upon: their reputation; their reliability; their prior MGP experience; their experience at MGP sites within the United States Environmental Protection Agency's, Region V; the Company's past experience with the vendor; their general capabilities; their general approaches to environmental investigations; billing methods; professional qualifications; the recommendations of vendors with whom the Company's environmental consultant has had a favorable prior experience; or the recommendations by the Company's outside counsel. Where appropriate, the Company employs a competitive bidding procedure to select these vendors. In other situations, the Company will employ a selection process that is appropriate for the circumstances.

After prospective vendors are identified and solicited, and their proposals are submitted and reviewed, interviews are conducted by the Director of Peoples' Environmental Affairs Department, Peoples' Assistant General Counsel and/or Peoples' Senior Vice President and General Counsel.

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RESPONSE TO DATA REQUEST: SDR 1.011

RESPONSIBLE WITNESS: MATUSZAK

b. See the Company's response to SDR 1.011(a).

c. None.

d. There were no instances during the reconciliation period when the lowest bid for goods and services was rejected.

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DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.012

RESPONSIBLE WITNESS: MATUSZAK

12. REQUEST:

~~Explain how the Company evaluated each contract renegotiation position that was proffered by a contracted supplier of the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.~~

RESPONSE:

The Company did not have occasion to renegotiate any contracts with vendors of MGP related goods and services during the reconciliation period.

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.013

RESPONSIBLE WITNESS: MATUSZAK

13. REQUEST:

Explain how the Company formulated each contract renegotiation position that it offered to a contracted supplier of the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.

RESPONSE:

The Company did not have occasion to renegotiate any contracts with vendors of MGP related goods and services during the reconciliation period.

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.014

RESPONSIBLE WITNESS: MATUSZAK

14. REQUEST:

~~This request pertains to the Company's monitoring of MGP environmental cleanup purchases and contracts.~~

- a. Explain how the Company monitored MGP environmental cleanup purchases and contracts during the reconciliation period.
- b. Document all changes made as a result of these monitoring efforts.

RESPONSE:

a. Personnel from Peoples' Environmental Affairs Department monitored the purchases and contracts which were related to the Company's environmental engineering activities during the reconciliation period. Personnel from Peoples' Office of General Counsel monitored the purchases and contracts which were related to the environmental activities performed by the Company's environmental counsel, insurance counsel and litigation consultants during the reconciliation period. These contracts and purchases were monitored as follows.

For the goods and services supplied during the reconciliation period, vendors submitted invoices to the Company. As these invoices were received, they were reviewed by Peoples' personnel from either the Environmental Affairs Department or the Office of General Counsel. During this review, Company personnel examined the invoices to ensure that the Company was being billed at the correct rate for goods that it received and the services that were properly performed on its behalf. The invoices were also reviewed to ensure that the amounts billed would be posted to the proper accounts. Based upon this review, each invoice was then either approved for payment or questioned.

For those invoices that were questioned, Peoples' personnel from the appropriate area contacted the vendor to discuss those matters on the invoice that had been questioned. Based upon discussions with the vendor, the amounts on the invoice would either be amended by the vendor as appropriate, or would remain the same if a satisfactory explanation of the invoice was provided to the appropriate personnel from Peoples by the vendor.

In those instances where invoices were questioned by Peoples' personnel and subsequently amended by the vendor, the vendor would prepare and submit a corrected invoice. Upon receipt of the corrected invoice, the appropriate person from either the Peoples' Environmental Affairs Department or Peoples' Office of General Counsel would compare the original invoice with the corrected invoice to verify that the agreed upon adjustments had been made. If the agreed upon adjustments were made, the corrected invoice was approved for payment.